
CHAPTER: Management

SECTION: Introduction to Management

Section 200

Introduction to Management

This section addresses the overall capabilities of the board of directors and management, in their respective roles, to identify and control the risks of a savings association's trust and asset management activities. Boards of directors and management have multiple responsibilities in governing the activities of a trust department, particularly with regard to fiduciary activities and the fundamental duty of loyalty. Examiners should ensure that the board and management have established clear guidance regarding acceptable risk exposure levels. Another responsibility of management is to ensure that appropriate policies and practices of the trust department are established and followed. Examiners must also determine the ability of the board of directors and management, in their respective roles, to plan for, and respond to, risks that may arise from changing business conditions or the introduction of new activities or products. Examiners assess management and boards of directors on whether sound risk management practices, such as the following, are in place: establishing and maintaining active oversight by the board of directors and management; hiring and retaining competent personnel; instituting adequate policies, processes and controls that consider the size and complexity of the savings association's trust and asset management activities; and establishing effective risk monitoring and management information systems.

Responsibilities of the Board of Directors

The board of directors is ultimately responsible for all aspects of the savings association's trust and asset management duties. Directors are responsible for retaining and performing general supervision over the exercise of trust powers. If the directors fail to properly exercise these duties, they will increase the overall risk of the savings association and may be held liable for any losses to account beneficiaries. In discharging its authority, the board of directors may delegate duties and responsibilities to such committee(s), director(s), officer(s) or employee(s) as it deems appropriate. However, the board retains ultimate responsibility for all delegated matters and must maintain the proper degree of control and supervision over those it has empowered.

The board of directors must be sufficiently independent of corporate affiliates and personal conflicts of interest to properly serve the interests of the savings association. In many cases, OTS has imposed conditions in the chartering process that at least 40 percent of the savings association's board of directors must be individuals who are not officers or employees of the savings association or any affiliate of the savings association. Another condition that may be imposed is to have at least one member of the savings association's board of directors be an individual who is not an officer, director or employee of the savings association or any of the savings association's affiliates. When evaluating management, the examiner should determine whether such conditions have been imposed and the savings association's compliance with them.

The examiner should review the actions of the board of directors, noting any deficiencies or failure to carry out its duties. The management system and organization should also be reviewed to assure it has an appropriate framework to carry out the trust and asset management responsibilities of the savings association. The board, the number of which will often be determined by the size of the trust department and the complexity of the accounts administered, may utilize trust committees.

OTS §550.150 states that the savings association's board of directors is responsible for the proper exercise of its fiduciary powers. The regulatory and examination approach taken by OTS also emphasizes the ultimate responsibility of the board of directors over all trust and asset management activities. In other words, the board is responsible for all matters pertinent to the trust department. This would include responsibility for

compliance with applicable law and the standards of fiduciary conduct. Illustrative (but not inclusive) examples of such overall responsibility would include: responsibility for ensuring that a system of policies and procedures is adopted, practiced and monitored; responsibility for the prudent investment and disposition of property held in a fiduciary capacity; ensuring that adequate management is in place to control risks; ensuring that an annual audit is conducted; and, ensuring that a record of pending litigation is kept.

In addition, it is important for the board to ensure that the trust department's management information and data processing systems are adequate to provide the type and quantity of reports necessary to assess and monitor the trust department's performance. The quality of information provided to boards of directors in board and committee reports is critical in their decision-making processes. Not only must the board carefully review information provided by management but they must also ensure that the information is complete and contains all pertinent information required to oversee the trust function. Further, the board should ensure that corrective action is effectively implemented when deficiencies are reported. Section 550.150 further states that the board may assign the administration or any function related to the exercise of fiduciary powers, as it may consider proper. However, generally accepted fiduciary principles provide that certain functions cannot or should not ordinarily be delegated including, in part, approval of significant new services or lines of business, approval of formal policies and selection of senior management. Even with proper delegations, the board retains ultimate responsibility and, if the board assigns functions to individuals or committees, it must monitor the assignments to ensure that they are being properly performed. All such actions taken by individuals or committees should therefore be properly recorded in the minutes (or a similar record). While it is not necessary that all written records be specifically approved, such records should be available for the board's inspection. The board should also be closely monitoring fiduciary services performed on behalf of the savings association by another institution or entity. These services must be performed under a written agreement in accordance with §550.180. The agreement should clearly delineate the services to be performed by the other entity.

Policies, Procedures and Internal Controls

The directors should formulate and implement suitable policies, procedures and internal controls (collectively referred to below as "policies") to promote sound trust and asset management administration. Comprehensive, well-developed policies, assuming they are followed, monitored and enforced, are one of the most effective methods of promoting operating efficiency, ensuring compliance with laws and fiduciary principles and deterring losses. The scope and detail of policies adopted by the board of directors for the trust department should take into account the savings association's size, complexity and trust and asset management risk profile. While the need for and content of policies will therefore vary between institutions, written policies should ordinarily be in place for the following areas:

Federal Securities Laws: Written policies and procedures are specifically required by §550.140(b) to ensure that any decision or recommendation to purchase or sell any security is not made by fiduciary officers and employees using material inside information.

Conflicts of Interest: Policies should be established to cover those areas where the interests of the fiduciary account might conflict with those of the savings association itself (i.e. in its role as lender), its directors, employees or its affiliates. Examples of conflict situations include, the purchase of own-institution or affiliate obligations (i.e., stock, mortgages); purchase of proprietary mutual fund shares for discretionary trust accounts; purchase of assets from or sales to directors, affiliates or other interested persons; or purchases or sales between fiduciary accounts. Policies and written agreements should also be established regarding transactions with affiliates, including affiliated broker dealers so as to comply with OTS regulations regarding transactions with affiliates. 12 CFR §563.42(b).

Asset Management: Policies should be established to demonstrate compliance with applicable state prudent man or prudent investor laws or applicable federal law such as ERISA when the savings association makes investment decisions for discretionary accounts. Investment policies should exist that are designed to promote preservation of principal, diversification of portfolios, establishment of individual account investment objectives, production of income (including prompt investment of income and principal cash) and to prevent speculation. The board should also ensure that any delegation of investment activity (e.g., investment advisory services) is pursuant to a written agreement whereby the savings association retains ultimate investment oversight and responsibility.

Account Administration: Policies should be established to assure that all trust and asset management accounts are administered in a consistent manner and in accordance with the terms of the governing instrument and applicable law. Examples of such policies include, acceptance of accounts (including cofiduciary and successor appointments); account set-up; account reviews; overall administration (including tickler systems; receipts and disbursements; possession and control of assets; account documentation requirements) and account termination procedures.

Operations: Policies should be established to assure the integrity and accountability of the trust department's systems and internal controls. Examples of such policies include, storage and handling of assets; separation of duties; processing and reconciliation of transactions; document filing and maintenance; outsourcing; and standards for information technology systems.

Personnel: Policies should be established regarding the appropriate size and qualifications of staff, organizational structure and employee ethics. The latter policy should address acceptance of gratuities and bequests from customers or other interested parties and any personal services rendered, benefits gained and/or influences exerted by the employee to or from the customer.

Business Development and Profitability: Policies should address the nature and type of the trust and asset management business to be solicited, fees to be charged (including discounts, waivers or compensating balances), marketing strategies and the overall goals and objectives of the savings association in offering and providing trust and asset management products and services.

A number of other policies should be adopted to cover certain specified activities. These are addressed in the relevant sections of the handbook and include, for example, proxy voting, securities trading and brokerage placement policies as well as the establishment of audit, compliance and risk management programs. Specific policies required are specified in §550.140.

Organizational Structure

An effective system of supervision is essential if the savings association is to properly discharge its duties and responsibilities. A necessary prerequisite to an effective system of supervision is an effective and efficient system of organization. Organization includes both administrative personnel and the executive structure of the trust department. It also includes other board committees relating to trust and asset management and the assigned responsibilities of all pertinent entities through which adequate supervision is achieved.

The organizational structure of the trust department should be clearly spelled out in the savings association's written records (e.g., bylaws, board resolutions and management plans). These records must clearly define organizational relationships and responsibilities. They must delineate not only a system for the orderly functioning of the trust department but also an internal system of accountability. The organizational structure should be designed to accommodate the volume and type of business administered and should be reviewed periodically by the board to ensure that it continues to ensure proper administration of the savings association's trust and asset management business. Any system of organization is acceptable so long as it is tailored to meet the institution's responsibilities, is workable for the institution and the directors are fulfilling their responsibilities. Nonetheless, there are several principles common to an effective organizational structure, including:

- the structure should be designed to promote an orderly flow of daily work;
- committee and individual functions, including lines of authority, duties and responsibilities, should be clearly defined and communicated to all personnel;
- organizational plans should include procedures for personnel recruitment, training, evaluation and salary administration;
- staff should be sufficient in numbers to handle the volume of work, including provision for peak workloads;
- strategic and business planning should be ongoing and continuous; and
- compliance and risk management oversight should be implemented throughout the organization

Management appraisal involves the evaluation of the quality of supervision of the trust and asset management activities by the directors, officers, employees and committees of the savings association. The examiner's purpose in reviewing the supervisory function is to evaluate the adequacy of the existing management system and organization framework as they relate to meeting the savings association's stated responsibilities, as well as generally accepted standards of fiduciary conduct.

The appraisal of management is accomplished through a combination of observation and information, involving both objective and subjective judgments made during the examination. The assessment of management's effectiveness is also measured against the size and complexity of the trust department. In assessing the competence of management, their qualifications and performance should be evaluated relative to duties and responsibilities assigned to them. For example, a department manager may possess limited knowledge of fiduciary matters yet possess effective managerial skills; but if middle-level employees have sufficient fiduciary knowledge, which senior management follows, management can be considered satisfactory. As another example, the knowledge and skills necessary to effectively manage a small

department with relatively uncomplicated accounts is different from that required to effectively manage a large and diverse department; management's competence should be measured against its activity and not necessarily compared to that of another person or institution.

The appraisal of management therefore covers the full range of functions and activities related to the operation of the trust department. It includes review and evaluation of the:

- duties and responsibilities of directors;
- organizational structure and its effectiveness;
- extent and effectiveness of director supervision, both directly and through committees;
- competence, leadership and administrative ability of senior management;
- competence and adequacy of supporting staff;
- attention paid to monitoring litigation, charge-offs and other losses, to determine their causes and to initiate a course of action to prevent or minimize their reoccurrence;
- responsiveness to audit and examination reports;
- short and long-range business plans for the trust department;
- financial performance of the trust department;
- availability of and reliance upon competent legal counsel; and
- sufficiency of liability insurance coverage.

In evaluating the competence of senior and supporting personnel the examiner should consider: education (level of academic achievement and its relationship to the position held), training (level of professional training, schools, seminars), experience (nature of fiduciary experience, prior history) and character (personality, reputation, reliability, work ethics).

Trust Committees

The board of directors may authorize the establishment of a fiduciary audit committee. The purpose of the fiduciary audit committee is to direct the conduct of the audit required under OTS regulations at §550.440. The fiduciary audit committee may be a committee made up of members of the board of directors or an audit committee of an affiliate. There are two restrictions in OTS regulation §550.470 on who may serve on the audit committee. The first restriction is that officers of the savings association and officers of an affiliate that participate significantly in administering the fiduciary activities of the savings association may not serve on the audit committee. The second restriction is that a majority of the members of the audit committee may not serve on any committee to which the board of directors has delegated power to manage and control the fiduciary activities of the savings association.

Dual Employees

Many trust departments have determined that, for efficiency purposes, certain officers and employees will be employed as "dual employees," whereby their responsibilities are split between the trust department and other affiliated entities. While this is an allowable practice, management should establish specific guidelines governing the employee's obligation to the savings associations' trust department, as well as his/her duty of loyalty to the department's fiduciary customers.

CHAPTER: Management

SECTION: Management Examination Program

Section 210P

Examination Objective

To assess the level and quality of oversight of trust and asset management activities by the board of directors and management. Consider whether the oversight:

- ensures compliance with applicable law and sound fiduciary principles;
- assures the accuracy, timeliness and effectiveness of management information and risk monitoring systems that are appropriate for the savings association's size, complexity and trust and asset management risk profile;
- is responsive to recommendations from auditors and regulatory authorities;
- assures sound strategic planning for trust and asset management products and services;
- addresses issues relating to turnover and succession planning;
- maintains adequate insurance coverage and the availability of competent legal counsel; and
- addresses pending litigation associated with trust and asset management activities in regards to the potential impact on earnings, capital and the savings association's reputation.

Examination Procedures

Level I Level I procedures first focus on a review of the examination scoping materials. The next step consists of interviews with trust department personnel to confirm their qualifications and levels of expertise; to determine if the trust department's practices conform to written guidelines; to establish whether any significant changes in personnel, operations or business practices have occurred; or whether new products and/or services have been introduced. If items of concern are uncovered during Level I procedures or if problems are identified during the preexamination monitoring and scoping; the examiner may need to perform particular Level II procedures.

1. Review examination scoping materials related to the management of the trust department. Scoping material should include:
 - Risk profile
 - Relevant PERK documents
 - Approval letter
 - ECEF reports
 - Previous trust and asset management examination report
 - Work papers from the previous examination

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- Board and committee minutes, by-laws and organization chart
- ADV report and any amendments
- Previous safety and soundness examination report
- Examination reports of subordinate functionally regulated entities

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2. Review and evaluate minutes of the [board of directors, trust, audit and any other committee overseeing trust and asset management activities](#) to determine:
 - the powers, duties and responsibilities of the various committees and officers within the savings association;
 - the decision-making process for overall policies, procedures and controls;
 - management responsiveness to internal audit and examination review findings;
 - risk monitoring information systems;
 - the quality of the risk management process; and
 - authorization levels for account acceptance and distributions.

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3. Evaluate the trust department's [policies and procedures](#). Determine whether significant revisions were made to keep pace with changes in trust and asset management activities or for other reasons. Consider the process for monitoring adherence to these policies and procedures.

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4. Assess the compliance program. Review and assess compliance reports submitted to management. Determine whether the compliance program is adequate for the size and complexity of the savings association.

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5. Review the periodic reports submitted to executive management and the board. Determine their usefulness in monitoring the condition and operations of the trust department.

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6. Determine whether management has complied with conditions of approval, orders or directives from regulatory authorities.

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7. Obtain or update biographical information on key personnel. Determine any significant personnel and/or [organizational changes](#) and evaluate whether management has the expertise necessary to carry out trust and asset management activities. Review management succession and any replacement of personnel.

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8. Note whether the trust department uses dual employees.

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9. Review and evaluate current and long-range strategic and/or [business plans](#). Consider:

- management's willingness and ability to adjust strategies based on regulatory changes, market disruptions, product changes or legal losses;
- management information systems for new or expanded products;
- the adequacy and independence of controls used to monitor business plan implementation;
- whether the plan is consistent with stated risk tolerance, management expertise and technological capabilities;
- reports on plan implementation for its financial performance, adherence (or variance) to the savings association's risk profile and capital adequacy; and
- how the risk management program is integrated into the business planning process.

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10. Consider whether the following risks contributors (if applicable) have been addressed:

- Board's knowledge and understanding of its duties and responsibilities
- Extent and effectiveness of director supervision, both directly and through committees
- Competence, leadership and administrative ability of senior management
- Monitoring litigation, consumer complaints, charge-offs and other losses to determine their causes and to initiate a course of action to prevent or minimize their reoccurrence
- Compliance with applicable law and fiduciary principles

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- Scope and reasonableness of short and long-range business plans for the trust department
- Availability of and reliance upon competent legal counsel

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The completion of the Level I procedures may provide sufficient information to make a determination that no further examination procedures are necessary. If no determination can be made, proceed to Level II.

Level II Level II procedures focus on an analysis of trust department documents such as reports and outsourcing contracts. The examiner should complete the appropriate Level II procedures when the completion of Level I procedures does not reveal adequate information on which to base a conclusion that the trust department meets the examination objectives. Neither the Level I nor the Level II procedures include any significant verification procedures.

1. Review the savings association's overall [insurance coverage](#). Determine if management reviews the liability insurance annually and considers the current coverage adequate based on the trust department activities.

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2. Ascertain if senior management is aware of their responsibilities relating to any regulatory reporting, registration and/or compliance requirements.

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3. Determine whether the savings association has established a referral fee or other business incentive plans. If so, determine if the fees being paid could lead to adverse profitability and/or other consequences to the trust department.

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4. Evaluate the promptness with which management recognizes and addresses customer account problems. Assure that customer complaints are resolved in an equitable and expeditious manner.

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5. Evaluate the board and management's oversight of the activities of dual employees when they are performing services for the trust department.

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6. Review records and reports that summarize employee turnover. Interview management and other personnel to determine the reasons for any excessive turnover, if applicable.

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7. Determine whether management uses legal counsel appropriately and effectively. Consider:
- the level and status of current and pending litigation;
 - if counsel is used when the language in the governing instruments is unclear or ambiguous or presents complex points of law;
 - if counsel is used to review transactions involving conflicts of interest; and
 - if counsel is utilized to review the offering of new products and services for compliance with applicable law.

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If the examiner cannot rely on the trust and asset management Level I or Level II procedures, or data contained in department records or internal or external audit reports; proceed to Level III.

Level III Level III procedures include verification procedures that auditors usually perform. Although certain situations may require that Level III procedures be completed, it is not the standard practice of Office of Thrift Supervision (OTS) examination staff to duplicate or substitute for the testing performed by auditors.

1. Assess the workload of key personnel in the trust and asset management business lines. Consider the degree of turnover of critical staff given the business volume, complexity and risk profile. Also consider the impact of cost cutting programs on workload assignments.

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2. Evaluate internal training and employee development programs.

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3. Consider whether problems and significant risks identified in the trust department threaten the continued viability of the savings association and pose a threat to the trust and asset management accounts.

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4. Consider whether replacing or strengthening management or the board of directors is necessary.

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Final Risk Assessment

Determine a final risk assessment regarding management and its oversight of the trust department based on the level of examination conducted.

<u>Type of Risk</u>	<u>Quantity of Risk:</u> High, Medium, Low	<u>Quality of Controls:</u> Effective, Acceptable or Weak	<u>Direction of Risk:</u> Increasing, Decreasing or Stable
Reputation Risk			
Strategic Risk			
Transaction/Operational Risk			
Compliance/Legal Risk			
Financial Risk			

Support the ratings from the matrix above with a concise summary explanation for each of the risk categories as to quantity, quality and direction of risk.

Overall Risk Assessment
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Examiner's UITRS Rating, Summary, Conclusions and Recommendations:

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Reference - 210P**Laws****Code of Federal Regulations**

12 CFR 550	Trust Powers of Federal Associations (General)
12 CFR 550.140	Policies and Procedures
12 CFR 550.150	Responsibility for Fiduciary Powers
12 CFR 563.42(b)	Standards Applicable to Transactions with Affiliates and Subsidiaries

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Office of Thrift Supervision Publications

Section 300 Thrift Activities Handbook
Director Information Guide

Other

TB 76-1 Paying Finders or Referral Fees for Trust Business

Workpaper Attachments - 210P

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Optional Topic Questions

The following list of questions is offered merely as a tool and reference for the examiner and is not a required part of the examination process.

Structure

• Is the organization structure designed to promote an orderly flow of daily work?
• Are committee and individual functions, including lines of authority, duties and responsibilities, clearly defined and communicated to all personnel?
• Are department committees structured so as to constitute workable entities?
• Do organizational plans include procedures for personnel recruitment, training, evaluation and salary administration?
• Is staffing adequate, both in numbers and qualifications, to effectively and efficiently handle current and projected trust and asset management business?
• If employees operate as "dual employees" are they appropriately dedicated to the trust department?

Board and Committee Minutes Note: When used below, "board" includes such person(s) or committee(s) to whom proper assignments have been made if the board does not directly supervise the trust department.

• Does the board of directors properly fulfill their responsibilities over the exercise of trust powers by either directly supervising the trust department or by assigning such functions as it considers proper, by action duly entered in board minutes, to specifically designated director(s), officer(s) or committee(s)? (§550.150).
• Are board meetings regularly scheduled and do members attend meetings with reasonable frequency?
• Have written policies and procedures (and management reports related thereto) pertaining to the administration and operation of the savings association's trust and asset management activities been established, as appropriate to the size and character of business?
• Are policies and procedures current and are they periodically reviewed?
• Are they adequately communicated to all appropriate personnel?
• Does the board review and take any necessary corrective actions with respect to: <ul style="list-style-type: none"> • Audit and examination reports? • Litigation developments? • Earnings and expense reports, including charge offs? • Changes to fee schedules?
• Is the prior approval of the board obtained before accounts are formally accepted or terminated (closed)? (§550.200)
• Does the board ensure that a prompt review (i.e., within 60 days) of an account's assets is made upon acceptance or upon funding of the trust? (§550.210)
• Does the board ensure that all discretionary assets are reviewed at least once during every calendar year, to determine the advisability of retaining or disposing such assets? (§550.220))

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<ul style="list-style-type: none">Does the board approve all purchases and sales of assets, including reasons for selling or retaining?
<ul style="list-style-type: none">Does the board approve all significant decisions regarding account administration (e.g., discretionary distributions, extraordinary expenditures)?
<ul style="list-style-type: none">Does the board adequately seek to ensure the integrity of the records, operating systems and internal controls, by providing for an adequate audit of the trust department? (§550.440)
<ul style="list-style-type: none">Is legal counsel designated, employed, retained or readily available to advise the trust department? (§550.140(d))
<ul style="list-style-type: none">Are written legal opinions obtained on significant legal questions (i.e., pending or threatened litigation, governing instruments whose terms are unclear, proposed actions or policies involving possible legal exposure such as conflicts of interest)?

Policies and Procedures

<ul style="list-style-type: none">Has management developed and implemented the appropriate policies to manage the trust and asset management activities?
<ul style="list-style-type: none">Are the policies reviewed and approved by the board or its designated committee at least annually?
<ul style="list-style-type: none">Has management established a manner of communicating policies and policy changes?
<ul style="list-style-type: none">Has management established a process of monitoring for policy compliance and reporting exceptions?
<ul style="list-style-type: none">Are the management reports timely and of good quality?
<ul style="list-style-type: none">Does management respond effectively to reported violations of policy?

Litigation

<ul style="list-style-type: none">Is an adequate record kept of all pending litigation to which the savings association is a party in connection with the exercise of its trust powers? (§550.420)
<ul style="list-style-type: none">Does management periodically review compromise and settlement actions as well as pending litigation?

Insurance

<ul style="list-style-type: none">Does the board consider, provide for and review at least annually, insurance coverage relative to trust and asset management activities?
<ul style="list-style-type: none">If such coverage is not provided, or is not considered adequate, does management have a justifiable reason for not doing so?

Business Plan

<ul style="list-style-type: none">Has the savings association established a business plan for the trust and asset management area?
<ul style="list-style-type: none">Was the business plan approved by the board of directors?
<ul style="list-style-type: none">Does management effectively communicate strategic plans?
<ul style="list-style-type: none">Is the business plan consistent with the savings association's stated risk tolerance?
<ul style="list-style-type: none">Does the plan consider capital needs?

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<ul style="list-style-type: none">• Does the plan consider management's expertise?
<ul style="list-style-type: none">• Does the plan consider economic and market conditions?
<ul style="list-style-type: none">• Are policies and procedures kept consistent with business plan changes?
<ul style="list-style-type: none">• Does the board regularly receive reports on the business plan's implementation? Are they accurate?

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Risk Management

This section is intended to provide an overview of the risk assessment process which management should implement as part of its foundation of internal controls. Management should have a process and methodology to identify, measure, monitor and control the risks associated with trust and asset management products, services and processing functions. A separate assessment should be made of each product and service the savings association provides. In order to ensure an effective internal control system, management should ensure the adequacy of: 1) the management oversight and control culture; 2) risk recognition and assessment; 3) control activities and segregation of duties; 4) information and communication; and 5) monitoring activities and correction of deficiencies.

A thorough assessment includes the following (see **Section 060**):

- identification of material risks;
- the quantity of risk;
- the quality of risk management;
- the level of supervisory concern;
- direction of risk;
- the potential exposure to liability or loss;
- adequacy of current controls; and
- actions necessary to improve the control environment.

In order for the savings association to make an appropriate assessment of the risks inherent with each trust and asset management activity, management must have a comprehensive knowledge of:

- current operations, including products, services and customer base;
- the overall trust and asset management industry; and
- the market segments to which the savings association provides or intends to provide trust and asset management products and services.

Execution/Administration

As stated in Section 060, the types of risk associated within a savings association's trust department include: reputation risk; strategic risk; transaction/operational risk; compliance/legal risk; and financial risk. A well planned and managed trust department will have policies and procedures that include a process and methodology to assess the risks associated with all trust and asset management activities and the documentation of these risk assessments. Management should clearly identify the products and services it renders or intends to render, the policies and procedures that will govern their delivery and its ability to implement adequate risk controls. Once risks are identified, management should ensure that recommended improvements are implemented and monitored.

An analysis of the gathered data should enable management to compose a comprehensive risk profile that clearly identifies the risks associated with its products and services. Management should then direct the implementation of the necessary processes to continually identify, measure, monitor and control these risks and identify personnel capable of delivering the products and services and processes in a manner that limits those risks. The risk profiles should also assist the savings association in determining the profitability of each rendered product and service and enable it to adjust its fees or proposed fees accordingly.

Risk management and assessment is an ongoing process requiring continual monitoring and adjustment. Once a program has been established and implemented, it must be continually reviewed for its effectiveness, taking into consideration changes in laws and regulations, the current legal climate and new products and services. The risk management process should be implemented into the savings association's compliance management and audit programs to ensure effective monitoring and compliance.

CHAPTER: Management

SECTION: Risk Management Examination Program

Section 220P

Examination Objective

To determine the adequacy and/or effectiveness of the trust department's risk management practices. Consider whether:

- the risk management program is appropriate for the size and nature of the trust and asset management activities;
- all the risks associated with the department's trust and asset management activities are identified;
- the board of directors and management, in their respective roles, have the ability to plan for, and respond to, risks that may arise from changing business conditions or the introduction of new activities or products;
- the risks of significant trust and asset management activities are addressed by appropriate policies, procedures and internal controls; and
- corrective action is taken and additional monitoring systems and controls are implemented when significant risks are identified.

Examination Procedures

Level I Level I procedures first focus on a review of the examination scoping materials. The next step consists of interviews with trust department personnel to confirm their qualifications and levels of expertise; to determine if the trust department's practices conform to written guidelines; to establish whether any significant changes in personnel, operations or business practices have occurred; or whether new products and/or services have been introduced. If items of concern are uncovered during Level I procedures or if problems are identified during the preexamination monitoring and scoping; the examiner may need to perform certain Level II procedures.

1. Review examination scoping materials related to the operations and internal controls of the trust department. Scoping material should include:
 - Risk profile
 - Relevant PERK documents
 - Previous trust and asset management examination report
 - Workpapers from the previous examination
 - Previous safety and soundness examination report
 - Examination reports of subordinate, functionally regulated entities

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- Board of director and other applicable committee minutes

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2. Evaluate the policies and procedures for [risk management](#) practices.

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3. Has the board of directors and/or management developed and approved a process to identify, measure, monitor and control risk within the trust department? Is it reviewed and re-approved annually?

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4. Evaluate whether management has the expertise necessary to carry out the risk management process. If the size and nature of the organization is large or complex, has management assigned this responsibility to a separate division within the organization?

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5. If there is a separate risk management department or division, evaluate available expertise and note any personnel changes since the last examination. Review resumes for education, significant work related experience and any other pertinent information.

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6. Analyze the risk management reports submitted to management to determine their usefulness in monitoring the risk management practices of the trust department.

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7. If there are separate divisions for risk management, compliance and audit, determine how these divisions share information, responsibilities and duties. Is there cooperation between the divisions?

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8. Determine whether any new trust or asset management products or services have been introduced and whether risk assessments, control systems and monitoring processes were implemented for the product or service.

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9. Consider whether the following risk contributors (if applicable) have been addressed:

- Does the risk management program adequately quantify the level of risk in the trust department?
- Is the savings association's risk profile reviewed regularly by the appropriate personnel and updated accordingly?
- Is the risk management process appropriately used as a management tool with significant risks appropriately considered in the business planning process?
- Considering the size and complexity of the trust department, is the risk management program adequate?
- Are material issues noted in audit, compliance or examination reports corrected in a timely manner?

The completion of the Level I procedures may provide sufficient information to make a determination that no further examination procedures are necessary. If no determination can be made, proceed to Level II.

Level II Level II procedures focus on an analysis of trust department documents such as reports and outsourcing contracts. The examiner should complete the appropriate Level II procedures when the completion of Level I procedures does not reveal adequate information on which to base a conclusion that the trust department meets the examination objectives. Neither the Level I nor the Level II procedures include any significant verification procedures.

1. Review the risk management reports and supporting documentation and determine that they are adequate, prepared in accordance with the risk management program and provide proper documentation.

[Click&type]

2. Assess individual risk management reviews for particular products or services and determine if appropriate risk management techniques are deployed to assess the product or service's inherent risks.

[Click&type]

3. Evaluate management's plan to correct any material unresolved exceptions present in internal, external, compliance or examination reports.

[Click&type]

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4. Review management's budget for the risk management division. Is it adequate to support the personnel and operating expenses?

[Click&type]

5. Do risk management personnel have access to all complaint logs?

[Click&type]

6. Do risk management personnel have access to all outsourcing agreements and understand the arrangements and responsibilities involved?

[Click&type]

7. If the risk management process is housed in the parent company's lead bank, or another affiliate, determine how the process is conveyed to and managed by the savings association.

[Click&type]

If the examiner cannot rely on the trust and asset management Level I and Level II procedures, or data contained in department records or internal or external audit reports, proceed to Level III.

Level III Level III procedures include verification procedures that auditors usually perform. Although certain situations may require that Level III procedures be completed, it is not the standard practice of Office of Thrift Supervision (OTS) examination staff to duplicate or substitute for the testing performed by auditors.

1. Determine if the timing of risk assessments for each department or activity is adequate.

[Click&type]

2. Determine what the minimum documentation requirements are to support assessment decisions.

[Click&type]

3. Determine who has the authority to override risk assessments. Are the overrides used sparingly?

[Click&type]

4. Determine if line department managers review risk assessments for reasonableness.

[Click&type]

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5. Review training programs to determine if they educate management and staff to identify risks.

[Click&type]

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Final Risk Assessment

Determine a final risk assessment regarding the trust department's risk management program based on the level of examination conducted.

<u>Type of Risk</u>	<u>Quantity of Risk:</u> High, Medium, Low	<u>Quality of Controls:</u> Effective, Acceptable or Weak	<u>Direction of Risk:</u> Increasing, Decreasing or Stable
Reputation Risk			
Strategic Risk			
Transaction/Operational Risk			
Compliance/Legal Risk			
Financial Risk			

Support the ratings from the matrix above with a concise summary explanation for each of the risk categories as to quantity, quality and direction of risk.

Overall Risk Assessment [Click&type]

Examiner's UITRS Rating, Summary, Conclusions and Recommendations:

[Click&type]

References - 220P

None

Workpaper Attachments - 220P

[Click&type]

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Optional Topic Questions

The following list of questions is offered merely as a tool and reference for the examiner and is not a required part of the examination process.

Risk Management Program

<ul style="list-style-type: none">Has the savings association adopted a risk management program that is utilized in conjunction with its trust and asset management activities?
<ul style="list-style-type: none">If not, does management have plans to implement a risk management program?
<ul style="list-style-type: none">Does the savings association have well qualified staff to effectively implement a risk management program and is it being implemented effectively?
<ul style="list-style-type: none">Does the program address each of the following risks?
<ul style="list-style-type: none">Reputation Risk?
<ul style="list-style-type: none">Strategic Risk?
<ul style="list-style-type: none">Transaction/Operational Risk?
<ul style="list-style-type: none">Compliance/Legal Risks?
<ul style="list-style-type: none">Financial Risks?
<ul style="list-style-type: none">Are all trust and asset management products, services and processes addressed in the program?
<ul style="list-style-type: none">Are adequate monitoring procedures for the program in effect?

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